

MANISTEE COUNTY TRANSPORTATION, INC.

MANISTEE COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

51-7512

MANISTEE COUNTY TRANSPORTATION, INC.
MANISTEE, MICHIGAN
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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Manistee County Transportation, Inc.	County Manistee
Audit Date 9/30/04	Opinion Date 1/29/05	Date Accountant Report Submitted to State: 3/8/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

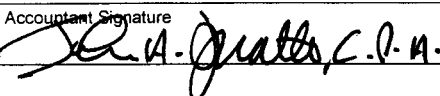
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.			
Street Address 475 Water Street	City Manistee	State MI	ZIP 49660
Accountant Signature 		Date 3-8-05	

**KALCHER
VANDERWAL
& TORREY, P.C.**

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

January 29, 2005

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

We have audited the financial statements of Manistee County Transportation, Inc. (a non-profit Michigan Corporation) as of and for the year ended September 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Michigan Department of Treasury "Audit Guide for Transportation Authorities and Agencies in Michigan." Those standards, and audit guide, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Michigan Department of Treasury "Audit Guide for Transportation Authorities and Agencies in Michigan," which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manistee County Transportation, Inc., at September 30, 2004, and the results of its operations and the changes in financial position for the year then ended, in conformity with the basis of accounting described in Note 2.

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Members:

American Institute of Certified Public Accountants • Michigan Association of Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2005, on our consideration of Manistee County Transportation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Manistee County Transportation, Inc. taken as a whole. The accompanying supplemental material presented in Schedules 1 through 7 has been subjected to the audit procedures applied in connection with our audit of those financial statements. This information, while not considered necessary for the fair presentation of the financial statements, results of operations and changes in financial position of the corporation, is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

Kalcher, Vandeweyer & Stoney, P.C.

Certified Public Accountants

MANISTEE COUNTY TRANSPORTATION, INC.
BALANCE SHEET
SEPTEMBER 30, 2004

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 302,220
Accounts Receivable	19,868
Property Taxes Receivable	201,039
Grants Receivable	113,480
Inventories	<u>4,436</u>
Total Current Assets	<u>\$ 641,043</u>

Property, Plant & Equipment

Land	\$ 55,038
Vehicles	2,799,989
Equipment	245,345
Leasehold Improvements	<u>80,459</u>
	\$ 3,180,831
Less: Accumulated Depreciation	<u>(1,671,817)</u>
Net Property, Plant & Equipment	<u>\$ 1,509,014</u>

Other Assets

Deferred Compensation Plan Assets	<u>479,083</u>
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TOTAL ASSETS	<u><u>\$ 2,629,140</u></u>
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LIABILITIES AND FUND EQUITY

Current Liabilities

Accounts Payable	\$ 34,885
Grant Payable	162,328
Accrued Salaries and Wages	35,570
Employee Insurances Withheld	418
United Way Withholding	136
Total Current Liabilities	<u>\$ 233,337</u>

Long-term Liabilities

Compensated Absences	\$ 50,085
Deferred Compensation	479,083
Total Long-term Liabilities	<u>\$ 529,168</u>

Total Liabilities	<u>\$ 762,505</u>
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Fund Equity

Contributed Capital:

State of Michigan	\$ 1,157,395
Federal Government	288,503
Total Fund Equity	<u>\$ 1,445,898</u>

<u>Retained Earnings</u>	<u>\$ 420,737</u>
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Total Fund Equity and Retained Earnings	<u>\$ 1,866,635</u>
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TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 2,629,140</u></u>
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The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

<u>Operating Revenues:</u> (Schedule 1)		\$ 285,236
<u>Operating Expenses:</u> (Schedule 2)		<u>1,559,128</u>
<u>Operating Loss</u>		<u>\$ (1,273,892)</u>
<u>Non-Operating Revenues</u>		
Local (Schedule 3A)	\$ 279,448	
State and Federal (Schedule 3B)	<u>661,317</u>	<u>940,765</u>
<u>Net Loss</u>		\$ (333,127)
<u>Add</u>		
Depreciation on Fixed Assets Acquired by Grants		
Entitlements and Shared Revenues Restricted for		
Capital Acquisition		<u>\$ 314,603</u>
<u>Decrease in Retained Earnings</u>		\$ (18,524)
<u>Retained Earnings</u> - October 1, 2003	\$ 451,545	
Prior Period Adjustments	<u>(12,284)</u>	
<u>Adjusted Retained Earnings</u> - October 1, 2003		439,261
<u>Retained Earnings</u> - September 30, 2004		<u>\$ 420,737</u>

The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Cash Flows from Operating Activities

Net Loss	\$ (333,127)
Adjustments to Reconcile Net Loss to	
Net Cash Provided by Operating Activities:	
Depreciation	319,680
Prior Period Adjustment	(12,284)
Decrease (Increase) In:	
Accounts Receivable	8,832
Property Taxes Receivable	(11,325)
Grants Receivable	7,506
Inventories	(219)
Increase (Decrease) In:	
Accounts Payable	5,598
Accrued Payroll Liabilities	2,927
Grant Payable	95,689
Compensated Absences	(6,774)
Net Cash Used by Operating Activities	<u>\$ 76,503</u>

Cash Flows from Investing Activities:

Capital Grants Received	\$ 380,442
Purchase of Fixed Assets	(380,442)
Net Cash Provided by Investing Activities	<u>\$ -</u>

Net Increase in Cash	76,503
Cash and Cash Equivalents - Beginning of Year	<u>225,717</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 302,220</u></u>

The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Note 1 – Description of Operations

Manistee County Transportation, Inc., was established March 3, 1975, as a Michigan non-profit corporation. The Company contracts with the County of Manistee, Michigan, to provide public transportation services to the residents of the County of Manistee, Michigan, under the joint auspices of the Urban Mass Transportation Division of the Federal Department of Transportation and the Michigan Department of Transportation. The entity is governed by a seven (7) member board which in turn appoints the executive director.

Note 2 – Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of Manistee County Transportation, Inc.

Basis of Accounting

The accrual basis method of accounting is followed by Manistee County Transportation, Inc. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

These financial statements are prepared under accounting principles prescribed by the Michigan Department of Treasury "Audit Guide for Transportation Authorities & Agencies in Michigan." This guide requires that federal, state and local capital grant money received be classified as contributed capital on the Balance Sheet. Under Generally Accepted Accounting Principles, grant money received would be classified as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings.

Inventories

Inventories of replacement parts are valued at the lower of cost or market using the first-in, first-out method. Office supplies are expensed when purchased and therefore are not included in inventories.

Property, Plant & Equipment and Depreciation

Land is shown at cost.

All vehicles are shown at cost. Depreciation is computed on the straight-line method with useful lives of three (3) years for the passenger buses and vehicles and seven (7) years for the metro buses.

Leasehold improvements and equipment are shown at cost. Depreciation is computed on the straight-line method with useful lives of from three (3) to ten (10) years for equipment and ten (10) years for leasehold improvements in accordance with the Michigan Department of Transportation "Replacement Schedule for transit agencies."

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Note 2 – Summary of Significant Accounting Policies – continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the corporation considers all highly liquid investments with an original maturity of six months or less to be cash equivalents.

Advertising

The Corporation uses advertising to promote its operations. The cost of advertising is expensed as incurred. During the year ended September 30, 2004, advertising cost totaled \$3,294.

Note 3 – Concentration of Credit Risk

The carrying amounts of the corporation's deposits as reflected in the accounts of the banks (without recognition of checks written but not yet cleared or of deposits in transit) were \$314,357 at September 30, 2004, of which \$100,000 was covered by federal depository insurance and \$214,357 was uninsured and uncollateralized.

State statutes permit surplus public funds to be invested as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- e. Mutual funds registered under the Investment Company Act of 1940, Title I Chapter 686.54 Stat.739, 15 U.S.C. 80a-1 and 80a-3 and 80a-4 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Note 3 – Concentration of Credit Risk - continued

- f. Obligations described in subdivision 9(a) through (g) if purchased through an inter-local agreement under the Urban Cooperation Act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- g. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.11 to 129.118.
- h. Investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Note 4 – Grants Receivable

At year end, the corporation had grants receivable from Federal and State agencies as follows:

Grant 2002-0063-Z6	\$ 7,131
Grant 2002-0063-Z3	6,498
State Operating Assistance	63,748
Federal Operating Assistance	<u>36,103</u>
	<u>\$ 113,480</u>

Note 5 – Grants Payable

At year end the corporation had grants payable to Federal and State agencies as follows:

State Operating Assistance - Fiscal Year 2003	\$ 66,639
State Operating Assistance - Fiscal Year 2004	88,033
Federal Operating Assistance - Fiscal Year 2003	<u>7,656</u>
	<u>\$ 162,328</u>

Note 6 – Deferred Compensation Plan

Manistee County Transportation, Inc. offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent employees and to those independent contractors who are performing services for the corporation, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the plan participants until termination, retirement, death or unforeseeable emergency.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Note 6 – Deferred Compensation Plan – continued

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

The plan assets are displayed in the financial statements. Further, the plan is administered by Manistee County Transportation, Inc.

A summary of the plan for the year ended September 30, 2004 is as follows:

Balance - September 30, 2003	\$ 399,383
Employee Contributions	2,612
Employer Contributions	31,164
Net Investment Gain	59,861
Payments to Eligible Participants	<u>(13,937)</u>
Balance - September 30, 2004	<u>\$ 479,083</u>

Investments in the plan are reported at market. Market value of the investment portfolio at September 30, 2004 and 2003 was \$ 479,083 and \$399,383 respectively.

Manistee County Transportation, Inc. does not use derivative instruments or products in their deferred compensation plan investment portfolio.

Note 7 – Commitments

The physical premises occupied by Manistee County Transportation, Inc. are owned by the County of Manistee. The deed states that the building is to be used exclusively by Manistee County Transportation, Inc. There is currently no lease cost incurred for the use of the building however, Manistee County Transportation, Inc., is responsible for the operation and maintenance of the building.

The property was originally purchased in 1979 by the County of Manistee with a grant from the Michigan Department of Transportation (MDOT). Under the terms of the grant the property is to be used exclusively for public transportation with MDOT retaining it's proportionate interest in the property in the event the property is sold or ceased to be used for public transportation.

Note 8 – County Tax Levy

Manistee County voters approved a five year mileage request in 1996 which provides a tax levy of .33 mills based on the County equalized valuation to be used for the operations of Manistee County Transportation, Inc.

In August 2002 this mileage was renewed by the Manistee County voters for a five year period covering the years 2002 through 2006.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Note 9 – Contingent Liability

In 1996, TES Filer City Station (Tondou) a Manistee County taxpayer, filed a petition with the Michigan Tax Tribunal contesting the 1993, 1994, 1995 and 1996 assessed value, State equalized value and taxable value of its industrial location in Filer Township, Manistee County, Michigan. Tondou has since contested the years 1997 – 2001. If this appeal would have been successful, all of the taxing jurisdictions which benefit from tax dollars generated by Tondou would have been required to pay back these funds and incur a loss of future revenue.

It has been estimated by the County's Equalization director that the potential revenue payback, would have resulted in Manistee County Transportation, Inc., returning \$74,543 for the years 1993 through 2001.

In January of 2004, the Michigan Tax Tribunal ruled against Tondou. The ruling is currently under appeal.

Note 10 – Vacation and Sick Leave

Vacation and Sick Leave accumulated during the year is recorded as current fringe benefit expense. As of September 30, 2004, the accumulated sick leave benefits computed for the employees of Manistee County Transportation, Inc., was \$50,086 with accumulated vacation pay included in accrued wages totaling \$16,224.

Full-time employees and part-time employees receive credit for six discretionary days on January first of each year. Beginning January 1, 1999, these days may not be carried over from one year to the next. Any accumulated discretionary days as of January 1, 1999 may be used, or kept, the same as in the past. However, beginning January 1, 1999 all days must be used in the year they are earned. An employee with an existing accumulation of discretionary days will have the option once each year, to convert any employer specified number of discretionary days to cash at 85% of current value. Employees receive one hundred (100%) percent of sick leave upon retirement or death.

All employees are entitled to vacation time off, with pay, during each year of employment. Holidays, discretionary days, and vacation days shall be deemed as days worked for vacation purposes. Vacation time allowed is based on years of service as follows:

<u>Years of Service</u>	<u>Vacation</u>
1 year but less than 3	1 week
3 years or more but less than 5	2 weeks
5 years but less than 8	3 weeks
8 or more years	4 weeks

Employees shall take vacation if the transportation schedule permits. If the schedule cannot accommodate the requested time off for the employees vacation, the employee shall receive vacation pay for all vacation time earned by December 31. Management may, at its discretion based on scheduling needs, grant employees who have less than one year of service, vacation time-off.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Note 11 – Risk Management

Manistee County Transportation, Inc., is exposed to various risk of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation is insured through the Michigan Municipal Risk Management Authority which is a public risk pool currently operating as a common risk management and insurance program for Michigan Municipalities. The Corporation pays an annual premium to the Michigan Municipal Risk Management Authority for its insurance coverage.

Note 12 – Informational Summary of Projected Revenues, Expenditures and Method of Financing Capital Projects

Manistee County Transportation, Inc. has prepared and made available for inspection, the informational summary of projected revenues, expenditures and capital projects costs recommended in section 15, subsection 1 (h), PA 1978, as amended, (MCIA 141 435) MSA 5.3228 (35) and as required in Act 51, 10e (1) (d) (vii).

Note 13 – Prior Period Adjustments

During the year ended September 30, 2004 the following adjustments were made to retained earnings as a result of settlements received on prior year contracts as follows:

State Operating Assistance -	
Fiscal Year 1999 Reconciliation	\$ (11,769)
Federal Operating Assistance -	
Fiscal Year 2001 Reconciliation	(515)
	<u>\$ (12,284)</u>

SUPPLEMENTAL
SCHEDULES

MANISTEE COUNTY TRANSPORTATION, INC.
OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 1

Operating Revenues:

Demand-Response (Farebox)	\$ 283,644
Auxiliary Transportation Revenue	<u>1,592</u>
	<u>\$ 285,236</u>

MANISTEE COUNTY TRANSPORTATION, INC.
OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 2

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
<u>Labor</u>				
Operator's Salaries and Wages	\$ 347,500	\$ -	\$ -	\$ 347,500
Other Salaries and Wages	66,354	106,381	114,121	286,856
<u>Fringe Benefits</u>	268,261	67,771	50,790	386,822
<u>Services</u>	-	6,098	11,899	17,997
<u>Material and Supplies Consumed</u>				
Fuel and Lubricants	63,195	-	-	63,195
Tires and Tubes	-	697	-	697
Other Materials and Supplies	-	14,578	3,160	17,738
<u>Utilities</u>	-	-	23,876	23,876
<u>Casualty and Liability Costs</u>				
Premiums for Public Liability and Property Damage Insurance	-	-	83,721	83,721
<u>Licenses</u>	-	-	52	52
<u>Miscellaneous Expense</u>				
Travel and Meetings	-	391	5,426	5,817
Other Miscellaneous	-	-	5,087	5,087
<u>Leases and Rentals</u>	90	-	-	90
<u>Depreciation and Amortization</u>	319,680	-	-	319,680
Total Expenses	<u>\$ 1,065,080</u>	<u>\$ 195,916</u>	<u>\$ 298,132</u>	<u>\$ 1,559,128</u>

MANISTEE COUNTY TRANSPORTATION, INC.
NON-OPERATING REVENUES - LOCAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 3A

<u>Gain on Sale of Assets</u>	<u>\$ 1,200</u>
<u>Local Operating Grants</u>	
Taxes - Manistee County	\$ 261,804
Revenue Sharing - Manistee County	9,182
Other Grant - Manistee County	<u>4,880</u>
Subtotal - Local Operating Grants	<u>\$ 275,866</u>
<u>Interest Income</u>	<u>2,382</u>
Total Non-Operating Revenues	<u><u>\$ 279,448</u></u>

MANISTEE COUNTY TRANSPORTATION, INC.
NON-OPERATING REVENUES - STATE AND FEDERAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 3B

State Operating Grants

Operating Assistance	\$ 524,398
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Federal Operating Grants

R-Tap	\$ 1,580
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D.O.T. Operating Grant - MDOT No. 2002-006324/R3	135,339
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Total - Federal Operating Grants	\$ 136,919
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Total Non-Operating Revenues - State and Federal	\$ 661,317
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MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF CONTRIBUTED EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 4

	<u>Federal</u>	<u>State</u>	<u>Local Government</u>	<u>Total</u>
<u>Balance - October 1</u>	\$ 1,104,534	\$ 275,525	\$ -	\$ 1,380,059
Add:				
Grants Received	312,436	78,109	-	390,545
Deduct:				
Cost of Items				
Expensed - Under \$5,000	(8,082)	(2,021)	-	(10,103)
Depreciation of Assets				
Purchased from				
Contributed Equity	<u>(251,493)</u>	<u>(63,110)</u>	<u>-</u>	<u>(314,603)</u>
<u>Balance - September 30</u>	<u>\$ 1,157,395</u>	<u>\$ 288,503</u>	<u>\$ -</u>	<u>\$ 1,445,898</u>

MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF CAPITAL CONTRCTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 5

<u>Grantor</u>	<u>Project #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Amount Earned this Audit Period</u>	<u>Total Amount Earned</u>	<u>Total Remaining</u>
11/25/2003 To						
State of Michigan Dept. of Transportation	2002-0063-Z3	11/25/2006	\$ 60,000	\$ 30,000	\$ 30,000	\$ 30,000
8/12/2002 To						
State of Michigan Dept. of Transportation	2002-0599	8/12/2005	\$ 345,440	345,214	\$ 345,214	\$ 226
2/15/2001 To						
State of Michigan Dept. of Transportation	2001-0215	2/15/2004	\$ 127,500	8,200	\$ 107,789	\$ 19,711
9/19/2003 To						
State of Michigan Dept. of Transportation	2003-0543	9/19/2006	\$ 661,260	-	\$ -	\$ 661,260
9/14/2004 To						
State of Michigan Dept. of Transportation	2002-0063-Z6	9/14/2007	\$ 47,500	7,131	\$ 7,131	\$ 40,369
				<u>\$ 390,545</u>		

MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 6

	<u>R-Tap</u>	<u>Operations</u>	<u>Total</u>
Labor	\$ -	\$ 634,356	\$ 634,356
Fringe Benefits	-	386,822	386,822
Services	-	17,997	17,997
Material and Supplies	-	81,630	81,630
Utilities	-	23,876	23,876
Casualty and Liability Costs	-	83,721	83,721
Licenses	-	52	52
Miscellaneous	1,580	9,324	10,904
Leases and Rentals	-	90	90
Depreciation	-	319,680	319,680
	<u>\$ 1,580</u>	<u>\$ 1,557,548</u>	<u>\$ 1,559,128</u>

MANISTEE COUNTY TRANSPORTATION, INC.
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 7

	Federal Section 5311	State Operating Assistance
<u>Expenses</u>		
Labor	\$ 634,356	\$ 634,356
Fringe Benefits	386,822	386,822
Services	17,997	17,997
Materials and Supplies	81,630	81,630
Utilities	23,876	23,876
Casualty and Liability Costs	83,721	83,721
Licenses	52	52
Miscellaneous	10,904	10,904
Leases and Rentals	90	90
Depreciation	319,680	319,680
Total Expenses	<u>\$ 1,559,128</u>	<u>\$ 1,559,128</u>
<u>Less: Ineligible Expenses</u>		
Bad Debt	\$ 1,078	\$ 1,078
Depreciation	314,603	314,603
R-Tap Reimbursements	1,580	1,580
Late Filing Penalties - Payroll Taxes	15	15
Late Filing Interest - Payroll Taxes	6	6
Other Ineligible Expenses	167	167
Allocated Cost - Meeting Room	107	107
Audit Fees	5,600	-
Total Ineligible Expenses	<u>\$ 323,156</u>	<u>\$ 317,556</u>
<u>Net Eligible Expenses</u>	<u>\$ 1,235,972</u>	<u>\$ 1,241,572</u>
Maximum Section 5311 Reimbursement (10.95%)	<u>\$ 135,339</u>	
Maximum State Operating Assistance (42.236619648% of Eligible Expenses)		<u>\$ 524,398</u>

**KALCHER
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& TORREY, P.C.**

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TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

January 29, 2005

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the year ended September 30, 2004, are included in this report. The accompanying supplemental information contained in schedules eight (8) and nine (9), for the year ended September 30, 2004, is presented for analytical purposes only and has been compiled by us from information that is the representation of management, without audit or review, and we accordingly do not express an opinion or any other form of assurance on such information.

Kalcher, Vanderwal & Torrey, P.C.
Certified Public Accountants

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MANISTEE COUNTY TRANSPORTATION, INC.
MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 8

	Public Transportation Mileage	Charter/School Bus Mileage	Demonstration Project Mileage
<u>Demand/Response</u>			
1st Quarter	105,180	-	-
2nd Quarter	101,587	-	-
3rd Quarter	97,704	-	-
4th Quarter	85,416	-	-
Total Operations	<u>389,887</u>	<u>-</u>	<u>-</u>

Note: Manistee County Transportation, Inc., operates all of its buses on a demand response basis.
There are no buses run on a strict line-haul basis.

The methodology used for compiling mileage has been reviewed by us and found to be an adequate and reliable method for recording vehicle mileage.

See Accountant's Compilation Report.

MANISTEE COUNTY TRANSPORTATION, INC.
PASSENGERS AND VEHICLE HOURS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 9

	<u>1st</u> <u>Quarter</u>	<u>2nd</u> <u>Quarter</u>	<u>3rd</u> <u>Quarter</u>	<u>4th</u> <u>Quarter</u>	<u>Total</u> <u>Operations</u>
<u>Demand - Response</u>					
Regular	4,885	4,639	5,618	11,960	27,102
Senior	8,171	7,559	8,059	4,637	28,426
Handicapped	14,818	14,180	13,795	7,078	49,871
Handicapped Senior	1,235	1,107	1,121	732	4,195
Total	<u>29,109</u>	<u>27,485</u>	<u>28,593</u>	<u>24,407</u>	<u>109,594</u>
<u>Vehicle Hours</u>	<u>6,090</u>	<u>6,028</u>	<u>5,788</u>	<u>4,968</u>	<u>22,874</u>

See Accountant's Compilation Report.

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TRAVERSE CITY
MANISTEE

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LEONARD R. KALCHER, C.P.A.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

January 29, 2005

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

We have audited the financial statements of Manistee County Transportation, Inc. for the year ended September 30, 2004, and have issued our report thereon dated January 29, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Manistee County Transportation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manistee County Transportation, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

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employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving internal control over financial reporting that we have reported to the management of Manistee County Transportation, Inc. in a separate letter dated January 29, 2005.

This report is intended for the information of The Board of Directors, management and the Michigan Department of Treasury. However, this report is a matter of public record and its distribution is not limited.

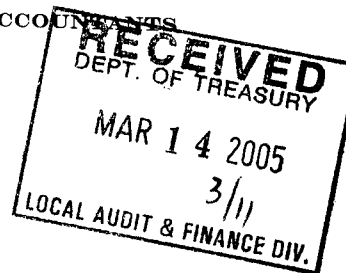
Kalcher, Vandewal & Toney, P.C.
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Of Counsel:

LEONARD R. KALCHER, C.P.A.

January 29, 2005

To the Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

In planning and performing our audit of the financial statements of Manistee County Transportation, Inc. for the year ended September 30, 2004, we considered the corporation's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. Our comments and recommendations regarding this matter is as follows:

Fare Box Revenue Reporting

It came to our attention during our discussion with various personnel while doing Fare Box revenue testing that sometimes cash has been changed on the cash sheet report when counted by a second person. There have also been cases where the drivers are not accurately logging their passengers, as the logged amounts do not agree with the cash collected.

In order to attain better internal control over Fare Box revenue collected, we recommend that an explanation be noted on the cash sheet if amounts are changed after the initial count. We also recommend that each day, dispatchers compare log sheets and cash collected from each individual driver to ascertain which drivers are inaccurately logging passengers.

Passenger Counts

Manistee County Transportation, Inc. uses a formula to calculate "contract seats sold/not occupied," also known as "passenger add-ins." The passenger add-ins are added to the actual passenger counts and included in the Annual Passenger Totals schedule in the audit report.

The formula consists in part of the estimated city and county contract prices as the numerators with the city and county fares being the denominators. A factor is arrived at from which the previous years average daily passenger amount is subtracted, with the remainder being the daily add-in amount to be used during the term of the contract.

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Being that the fare amount has remained unchanged for a number of years, the formula appeared to provide reasonable numbers. However, during fiscal year 2002-2003 the city and county fare amounts were doubled without a corresponding increase in the contract prices. This has led to a skewing of the Annual Passenger Counts.

The Michigan Department of Transportation provides the passenger counts included in the various audit reports to the Michigan Legislature for their use when considering transportation legislation and therefore these counts need to be as accurate as possible.

We recommend that the management of Manistee County Transportation, Inc. study new ways to determine the number of seats sold and not occupied. We also recommend that management inquire of its Project Director at MDOT to see if there are methodologies that they recommend. We were not able to determine this through our inquiries of MDOT.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Sincerely,

Kalcher, Vandewort & Toney, P.C.
Certified Public Accountants